REPORT ON EXAMINATION

OF THE

INDEPENDENCE AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

INDEPENDENCE AMERICAN INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 30 MAY 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF MAY 2007.

Insurance Commissioner ~~Insurance~~ of the State of Delaware

Insurance Commissioner

REPORT ON EXAMINATION

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INDEPENDENCE AMERICAN INSURANCE COMPANY

AS OF

December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 30TH Day of MAY 2007.

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SALUTATION

January 11, 2007

Honorable Mathew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Building
Dover, Delaware, 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.038, dated October 26, 2006 an examination has been made of the affairs, financial condition and management of the

INDEPENDENCE AMERICAN INSURANCE COMPANY

hereinafter, referred to as "the Company" or "Independence American", incorporated under the laws of the State of Delaware. The examination was conducted at 485 Madison Avenue, 14th Floor, New York, New York 10022-5872, the Company's main Administrative Office. The report thereon is respectively submitted.

SCOPE OF EXAMINATION

The last examination of Independence American was conducted as of December 31, 2002. This examination covers the period January 1, 2003 through December 31, 2005, and consisted of a general survey of the Company's business policies and practices, management and any corporate matters incident thereto, a verification and evaluation of assets, and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Examiners Handbook, National Association of Insurance Commissioners (NAIC), Delaware Insurance Laws and Regulations, and generally accepted insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were examined and made part of the workpapers of this examination:

Conflict of Interests
Fidelity Bond and Other Insurance
Officers, Employees & Agents Welfare
Corporate Records
NAIC Ratios
Legal Actions
All Assets and Liabilities Not Mentioned In This Report

HISTORY

The Company was incorporated on February 26, 1973, under the laws of the State of Delaware, as Pinnacle Insurance Company and commenced business on March 15, 1973. Since its incorporation, the Company has undergone several name changes. It has operated as:

Pinnacle Insurance Company
Chaparral Insurance Company
Greenwich Insurance Company
First International Reinsurance Company
GHI Reinsurance Company
Cove Reinsurance
First Standard Security Insurance Company
Independence American Insurance Company

By agreement dated October 16, 1975 the Company was acquired from the Superintendent of Insurance of the State of New York by Netter International Ltd. (which later became Geneve Holdings Inc. hereafter referred to as GHI) and has since remained within this holding company structure. On May 12, 1992, GHI sold the Company to Independence Holding Company. On June 30, 1993, the stock of the Company was contributed to another affiliate, SSH Corp. On October 29, 1993, the stock of SSH Corp. was contributed to Standard Security Life Insurance Company of New York and the Company began operating as First Standard Security Insurance Company on December 15, 1993. On November 14, 2002, First Standard Holding Company, the holding company of the Company, was sold to another affiliate, American Independence Corp. for $31,920,000. Associated with this transaction, the Company's name changed to Independence American Insurance Company.

CAPITALIZATION

The Company's amended Articles of Incorporation authorizes the Company to issue up to 10,000 shares of capital common stock. Currently 5,000 shares have been issued, all currently owned by Independence American Holdings Corp. The following table reflects the Company's capitalization activity since 1973:

Item Reference	Year	Amount Contributed	Capital Stock	Gross Paid-in & Contributed Surplus
(1)	1973	$ 2,558,475	$ 500,000	$ 2,058,475
(2)	1995		1,500,000	(1,500,000)
(3)	2000		350,000	1,500,000
(4)	2001		150,000	
(5)	2001		500,000	450,000
(6)	2001	1,595,717		1,595,717
(7)	2002	3,997,824		3,997,824
(8)	2002	10,000,000		10,000,000
(8)	2003	1,300,000		1,300,000
(8)	2004	4,500,000		4,500,000
(8)	2005	2,000,000		2,000,000
Totals as of	December 31, 2005		$ 3,000,000	$ 25,902,016

(1) - Initial capitalization 10,000 shares of $100 par value capital stock authorized 5,000 shares issued
(2) - Increase of par value to $400 per share
(3) - Transfers from unassigned surplus – par value increased to $470 per share
(4) - Transfer from unassigned surplus – par value increased to $500 per share
(5) - Transfer from unassigned surplus – par value increased to $600 per share
(6) - Capital contribution from SSH Corporation
(7) - Capital contribution from Standard Security Life Insurance Company of New York
(8) - Capital contributions from Independence American Holdings Corp.

Dividends:

There were no dividends paid to the sole shareholder of the Company during the three year period currently under examination.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the corporate Bylaws, the Company's property, business, and affairs are to be managed by a Board of Directors. The Directors are elected annually by the sole shareholder for a one year term. The Bylaws currently provide for seven (7) to eleven (11) individuals to serve on the Board. As of December 31, 2005, the following five (5) individuals were serving as members of the Company's Board of Directors.

Director	Principal Business Affiliation
Gary J. Balzofiore	Standard Security Life Ins. Co. of New York
Alex Giordano	Standard Security Life Ins. Co. of New York
David T. Kettig	Standard Security Life Ins. Co. of New York
Rachel Lipari	Standard Security Life Ins. Co. of New York
Roy T.K. Thung, Chairman	Executive Vice-President, Geneve Corporation

Officers:

The Company Bylaws, further provide for the election of a President, one or more Vice-Presidents, a Secretary and a Treasurer. The Board of Directors may elect additional officers as it may deem proper. The following officers were elected and serving at December 31, 2005:

Name	Position
Roy T.K Thung	Chairman and Chief Executive Officer
Alex Giordano	President and Chief Marketing Officer
David T. Kettig	Chief Operating Officer, Vice President and Secretary
Gary J. Balzofiore	Vice President and Chief Financial Officer
Teresa A. Herbert	Vice President and Assistant Secretary
Fred Ashraf	Controller and Assistant Secretary
Brian R. Schiler	Assistant Secretary
David B. Getz	Controller
Vacant	Treasurer

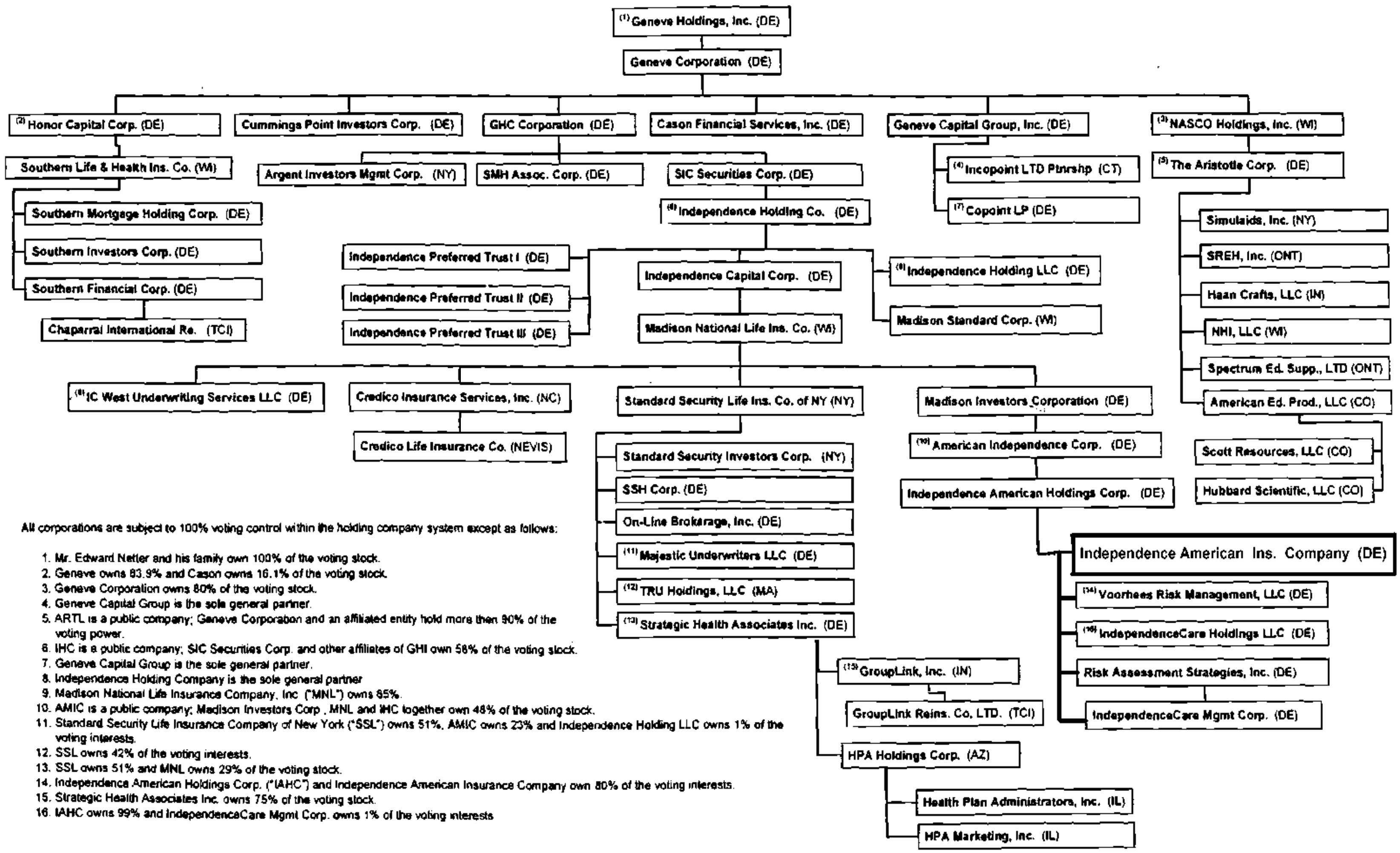
A review of the minutes of the meetings of the Board of Directors for the period currently under examination determined that all material transactions and investments were properly approved by the Board membership.

The Company's amended Articles of Incorporation currently require between seven (7) and eleven (11) individuals to serve on the Board of Directors. Currently only five (5) individuals are serving on the Board. The Company's amended Bylaws require the election of as least a President, a Vice President, a Secretary and a Treasurer. Currently the Company has no Treasurer.

> **It is recommended the Company immediately initiate procedures to correct these problems and come into compliance with its Articles of Incorporation regarding the number of individuals serving on the Board of Directors and its Bylaws regarding the required Officers to be appointed for service to the Company.**

INSURANCE HOLDING COMPANY SYSTEM

The Company is wholly owned by Independence American Holding Corp., which is wholly owned by American Independence Corp. The ultimate parent is GHI, which maintains control of the Company through its controlling interest in affiliated corporations. GHI is located in Stamford, Connecticut and reports total assets of $1,429,082,000 and liabilities of $1,105,405,000 as of December 31, 2005. As reflected in the 2005 annual statement, Mr. Edward Netter and members of his family own 100% of the outstanding voting stock of GHI. The following organizational chart reflects the current GHI Holding Company structure as of December 31, 2005:



All corporations are subject to 100% voting control within the holding company system except as follows:

1. Mr. Edward Netter and his family own 100% of the voting stock.
2. Geneve owns 83.9% and Cason owns 16.1% of the voting stock.
3. Geneve Corporation owns 80% of the voting stock.
4. Geneve Capital Group is the sole general partner.
5. ARTL is a public company; Geneve Corporation and an affiliated entity hold more than 90% of the voting power.
6. IHC is a public company; SIC Securities Corp. and other affiliates of GHI own 58% of the voting stock.
7. Geneve Capital Group is the sole general partner.
8. Independence Holding Company is the sole general partner.
9. Madison National Life Insurance Company, Inc. ("MNL") owns 85%.
10. AMIC is a public company; Madison Investors Corp., MNL and IHC together own 48% of the voting stock.
11. Standard Security Life Insurance Company of New York ("SSL") owns 51%, AMIC owns 23% and Independence Holding LLC owns 1% of the voting interests.
12. SSL owns 42% of the voting interests.
13. SSL owns 51% and MNL owns 29% of the voting stock.
14. Independence American Holdings Corp. ("IAHC") and Independence American Insurance Company own 80% of the voting interests.
15. Strategic Health Associates Inc. owns 75% of the voting stock.
16. IAHC owns 99% and IndependenceCare Mgmt Corp. owns 1% of the voting interests.

TERRITORY AND PLAN OF OPERATIONS

The Company is currently licensed as a property and casualty insurer in the following thirty-six (36) States and the District of Columbia:

Alabama	Indiana	Nevada	South Dakota
Alaska	Iowa	New Jersey	Texas
Arizona	Kansas	New Mexico	Utah
Arkansas	Kentucky	New York	Washington
Colorado	Maine	North Dakota	West Virginia
Delaware	Massachusetts	Oklahoma	Wisconsin
District of Columbia	Michigan	Oregon	Wyoming
Hawaii	Mississippi	Pennsylvania	
Idaho	Montana	Rhode Island	
Illinois	Nebraska	South Carolina	

The Company currently directly underwrites accident & health insurance risk involving 3 specific product lines:

- Provider Excess Loss - Marketed to Hospitals, HMO's & Physicians Groups to cover losses in excess of capitated limits for provided care in catastrophic situations for a specific coverage period.
- Employer Stop Loss - Marketed to employers who self-insure their medical plans. Provides coverage in excess of specified loss limits in catastrophic situations for a specific coverage period.
- Short Term Medical - Marketed to individuals who temporarily need medical coverage.

The majority of this risk is currently assumed from affiliates, Standard Security Life Insurance Co. of New York and Madison National Life Insurance Co. About 91% of premium income in 2005 came from these two affiliates. Company management indicated it intends to directly underwrite most of these insurance risks using affiliated third-party administrators and managing general underwriters to market and manage the business. Company management also indicated it intends to establish the means to market the short-term medical business directly. See the subsequent events section of this report for more information regarding Company business acquisition plans.

AFFILIATED COMPANY AGREEMENTS

Service Agreement

The Company participates in a service agreement with Standard Security Life Insurance Company, effective as amended June 1, 1998. Under the terms of the agreement Standard Security Life provides the following services to the Company and other participating affiliates:

- Legal
- Tax
- Financial statement preparation
- Accounting
- Actuarial

The agreement requires the Company to provide audit and marketing services to Standard Security Life. All services are provided at cost. The settlement of all expenses occurs quarterly. During the past 3 years, the company paid the following amounts to Standard Security Life Insurance Company under this agreement.

2003	$ 26,280
2004	223,245
2005	256,852

Tax Allocation Agreement

The Company also participates in a tax allocation agreement with its immediate parent Independence American Holding Corporation. The agreement, effective as amended November 14, 2002, allows the Company and Independence American Holding Corp. to file federal income tax returns on a consolidated basis. Amounts either payable or receivable under the agreement are calculated as if each participant filed a separate return with settlement amounts due within thirty days after the date the consolidated federal income tax return is filed.

Managing General Underwriter Agreements

The Company has entered into agreements with the following affiliated managing general underwriters to market its products and manage the business produced.

Independence American Insurance Company

- Independencecare Underwriting Services – Minnesota
- Independencecare Underwriting Services - Tennessee
- Medical Alliance Partnership
- Voorhees Risk Management, LLC

None of the above agreements have been submitted to the Delaware Insurance Department for approval. 18 Del.C. §5005(a).(2).d. indicates all management and service agreements with affiliates be submitted to the Commissioner of the Delaware Insurance Department for approval at least 30 days prior to the effective date of the agreement. The Delaware Insurance Regulations Section 1801(16.1) indicates all such agreements be submitted to the Delaware Insurance Department on a "Form D".

Company management representatives indicated the agreements were not submitted to the Delaware Insurance Department due to oversight, because little if any business has been transacted with these affiliated entities. Company management has also indicated that they intend to terminate all of these agreements in the near future (See Subsequent Events). Based on the information provided:

> **It is recommended the Company immediately initiate procedures to ensure that all affiliated company management and service agreements be submitted to the Commissioner of the Delaware Insurance Department for approval at least 30 days prior to the effective date of the agreements on the appropriate form required.**

Third-party Administrator Agreements

The Company has entered into an agreement with Health Plan Administrators Inc. an affiliated third-party administrator to market short-term health insurance products and manage the business produced. The contract has been submitted to the Delaware Insurance Department. The Company is currently awaiting its approval.

TRANSACTIONS WITH AFFILIATES

In addition to capital contributions from affiliates and amounts received from affiliates pursuant to active reinsurance arrangements, and its service agreement, the Company was involved in the following inter-company transactions:

- Dividends received from Voorhees Risk Management, LLC:

2003	$	718,538
2004		476,491
2005		382,749

- $2,000,000 received from the sale of 9.94% of the common stock of Voorhees Risk Management, LLC to Independence American Holding Corp. on December 31, 2003.

RETENTION AND REINSURANCE

Assumed Reinsurance:

The Company assumes the majority of its business through reinsurance agreements with affiliates Standard Security Life Insurance Company of New York, Madison National Life Insurance Company and New York Statutory Disability Insurance. Under the terms of these treaties, the Company can assume on a quota share basis up to 30% of aggregate and specific stop loss insurance, provider excess insurance, and any other such insurance risks issued to managed care organizations. During the period under review the Company assumed the following premium amounts annually from these two affiliates:

2003	$	34,523,947
2004		47,943,358
2005		61,023,014

Both of these contracts and all ensuing amendments to them have been submitted to and approved by the Delaware Insurance Department.

Annual premium amounts assumed by the Company from non-affiliates for similar insurance risks during the same period are as follows:

2003	$ 2,177,962
2004	11,421,124
2005	4,360,789

All outside assumption reinsurance arrangements were terminated in 2004. The premium received in 2005 is from assumed business being runoff.

Ceded Reinsurance:

The Company is involved with two reinsurance contracts that cede insurance risk directly underwritten by specific affiliated managing general underwriters under contract with the Company.

One contract, effective January 1, 2004, is with its affiliate Madison National Life Insurance Company. This contract pertains to aggregate and specific stop loss insurance, provider excess insurance, and any other such insurance risks issued to managed care organizations. It allows the Company to cede away on a quota share basis up to 55% of this risk to Madison National. During the period under review the Company ceded the following premium amounts annually to Madison National:

2004	$ 691,000
2005	841,000

The contract has been submitted to and approved by the Delaware Insurance Department.

The other contract, effective March 1, 2005 is with two non-affiliated reinsurers. It cedes away on a quota share basis 50% of directly underwritten risk pertaining to short-term medical business. In 2005, only about $20,000 of collected premium was ceded away under this contract. Although the contract commenced on March 1, 2005, the contract was not officially finalized by the assuming reinsurers until June 2006. SSAP 62 paragraph 23 specifies that all contracts entered into after January 1, 1994 be finalized within 9 months after the commencement date. Those that are not finalized appropriately within the 9 month period are to be accounted for as retroactive reinsurance arrangements pursuant to SSAP 62 paragraph 28. This contract does not meet any of the exclusions documented in SSAP 62 paragraph 23, so it accordingly should have been accounted for as retroactive reinsurance in 2005. Because the amount of business being ceded under this contract is minimal, no adjustment will be made to the Company's 2005 financial statements or in the future.

It is recommended the Company immediately initiate procedures to ensure that all future such reinsurance arrangements are finalized within the time requirements of SSAP 62 paragraph 23 or accordingly accounted for as retroactive reinsurance as outlined in SSAP 62 paragraph 28.

GROWTH OF COMPANY

The following information, obtained from the Company's filed Annual Statements, reflect the Company's growth since its last examination:

Year	Admitted Assets	Gross Written Premium	Assumed Premium	Net Income	Surplus as Regards Policyholders
2005	$ 60,056,161	$ 1,727,003	$ 65,383,803	$ 2,667,265	$ 39,335,291
2004	55,737,020	2,505,804	59,364,482	3,682,106	35,407,517
2003	46,768,061	2,230,836	36,701,909	3,914,112	27,184,014
2002	26,694,125	29,912	6,861,201	708,182	22,407,715

ACCOUNTS AND RECORDS

The Company's primary accounts and records are maintained on the electronic data processing equipment of Standard Security Life Insurance Company. A trial balance for December 31, 2005, was furnished by the Company and reconciled to the December 31, 2005 Annual Statement. The statutory based financial statements of the Company are audited annually by an independent accounting firm.

FINANCIAL STATEMENTS

The following statements and exhibits reflect the financial condition of the Company at December 31, 2005, as determined by this examination:

Analysis of Assets

Liabilities, Surplus and Other Funds

Underwriting and Investment Exhibit (Statement of Income)

Capital and Surplus

Schedule of Examination Adjustments

Analysis of Assets

	Ledger Assets	Non-admitted Assets	Net Admitted Assets	
Bonds	$ 41,363,120	$0	$ 41,363,120	
Preferred stocks (stocks)	1,885,536		1,885,536	
Cash $,453,308; cash equivalents $ 0 and short-term investments $,3,092,373	3,545,681		3,545,681	
Other invested assets	1,835,580		1,835,580	Note 1
Receivables for securities	183		183	
Subtotals - cash and invested assets	$ 48,630,100	$0	$ 48,630,100	
Investment income due and accrued	539,284		539,284	
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	1,629,007		1,629,007	Note 2
Funds held by or deposited with reinsured companies	7,638,490		7,638,490	
Other amounts receivable under reinsurance contracts				
Current federal and foreign income tax recoverable and interest thereon	325,281		325,281	
Net deferred tax asset				
Claim Funds	1,258,834		1,258,834	Note 3
Totals	$ 60,020,996	$0	$ 60,020,996	

Liabilities, Surplus and Other Funds

Liabilities:			
Losses	$	16,813,500	Note 4
Reinsurance Payable on Paid Losses & Loss Adjustment Expenses	$	1,303,910	Note 5
Commissions payable; contingent commissions and other similar charges		1,600,551	Note 2
Other expenses (excluding taxes; licenses and fees)		22,554	
Taxes; licenses and fees (excluding federal and foreign income taxes)		88,431	
Net deferred tax liability		132,016	
Payable for securities		-	
Funds Held by Companies under Reinsurance Treaties		724,743	Note 3
Amount due to reinsurers under reinsurance contracts		-	Note 5
Total Liabilities	$	20,685,705	
Capital and Surplus:			
Common capital stock	$	3,000,000	
Gross paid in and contributed surplus		25,902,015	
Unassigned funds (surplus)		10,433,276	
Total Surplus as Regards Policyholders'	$	39,335,291	
Total Liabilities and Surplus	$	60,020,996	

Underwriting and Investment Exhibit

Statement of Income

Underwriting Income:		
Premiums earned	$	66,117,528
Deductions:		
Losses incurred	$	44,722,457
Loss expenses incurred		26,533
Other underwriting expenses incurred		20,667,368
Total Underwriting Deductions	$	65,416,358
Net underwriting gain	$	701,170
Investment Income:		
Net investment income earned	$	2,505,342
Net realized capital losses less capital gains tax of $ 0		(3,179)
Net investment gain (loss)	$	2,502,163
Other Income:		
Total Other Miscellaneous Income	$	53,326
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$	3,256,659
Dividends to policyholders		-
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$	3,256,659
Federal and foreign income taxes incurred		589,394
Net Income	$	2,667,265

Capital and Surplus

Surplus as regards policyholders; December 31, 2004	$	35,407,517
Net income		2,667,265
Change in net unrealized capital (losses) less capital gains tax of $ 0		(338,853)
Change in net deferred income tax		(400,638)
Surplus adjustments paid in		2,000,000
Change in surplus as regards policyholders for the year	$	3,927,774
Surplus as regards policyholders; December 31, 2005	$	39,335,291

SCHEDULE OF EXAMINATION ADJUSTMENTS

	Per Company	Per Examiners	Surplus Increase (Decrease)	References
Uncollected Premiums	$ 2,388,915	$ 1,629,007	$ (759,908)	Note 2
Claims Funds	534,091	1,258,834	724,743	Note 3
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	-	1,303,901	(1,303,910)	Note 5
Commissions Payable	2,360,459	1,600,551	759,908	Note 2
Funds Held by Company under Reinsurance Treaties	-	724,743	(724,743)	Note 3
Amounts Due Under Reisnurance Contracts	1,303,910	-	1,303,910	Note 5
Net Surplus Adjustment			$0	
Surplus as Regards Policyholders' Per Company			39,335,291	
Surplus as Regards Policyholders' Per Examiners			$ 39,335,291	

NOTES TO FINANCIAL STATEMENTS

Note 1 – Other Invested Assets **$ 1,835,580**

The Company reflects $1,835,580 as an admitted asset in its 2005 Annual Statement for a 14.06% investment in Voorhees Risk Management, LLC, an affiliated managing general underwriter. The amount includes $1,808,245 of positive unamortized goodwill which is admissible per SSAP #68 paragraph 7. The Company is amortizing the goodwill over a 10 year period which also complies with SSAP #68, paragraph 7. To date they have amortized $995,035 of the goodwill amount.

Note 2 – Premiums in Course of Collection **$ 1,629,007**
Commissions Payable Contingent and Otherwise **$ 1,600,551**

The above amounts represent the respective balances as of December 31, 2005 for these balance sheet line items as determined by this examination. Both amounts have been reduced by $759,908 from what the Company reflects in its 2005 Annual Statement. The adjustment represents commissions payable on uncollected premiums. The adjustment was made to comply with the requirements of SSAP #6 paragraph 6 which indicates that uncollected premiums be reflected in an insurer's financial statements net of commissions.

It is recommended the Company initiate measures to ensure compliance with SSAP #6 paragraph 6 in the future.

Note 3 – Claims Funds **$ 1,258,834**
Funds Held by Company Under Reinsurance Treaties **$ 724,743**

The above amounts represent the respective balances as of December 31, 2005 for these balance sheet line items as determined by this examination. These line items were increased by $724,743 which represents amounts withheld by the Company on business ceded to reinsurers. The amounts were adjusted to comply with the requirements of SSAP #62 paragraph 20 which indicates funds being held by the ceding Company under reinsurance contracts be reflected as a liability. The claims fund balance now represents amounts held by managing general underwriters for the purpose of paying losses on business they directly produce for the Company.

It is recommended the Company initiate measures to ensure compliance with SSAP 6 paragraph 6 in the future.

Note 4 – Losses $ 16,813,500

The amount reported in the December 31, 2005 annual statement has been accepted for the purposes of this examination based upon: 1) The reserve analysis performed by INS Consultants, Inc., a consulting actuarial firm, 2) the short tail type of business assumed, and 3) the reserve credits reported by Standard Security Life Insurance Company of New York and Madison National Life Insurance Company in their December 31, 2005 annual statements which closely matched loss reserve amounts reported by the Company. The loss reserves associated with the business assumed from affiliates Standard Security Life Insurance Company of New York and Madison National Life Insurance Company totaled $16,113,000 of the $16,813,500 reserve reported by the Company as of December 31, 2005.

Note 5 – Reinsurance Payable on Paid Losses & Losses Adjustment Expenses $ -----0----
Amount Due to Reinsurers under Reinsurance Contracts $ 1,303,910

The above amounts represent the respective balances as of December 31, 2005 for these balance sheet line items as determined by this examination. Documentation reviewed indicates this amount represents a liability due to assuming reinsurers for losses paid. The Company reflects this amount as a write-in liability in the 2005 annual statement. The guidelines of the annual statements instructions and SSAP #62 indicates that amounts due to assuming reinsurers for losses paid be reflected as a liability in the line item "Reinsurance Payable on Paid Losses &

Loss Adjustment Expenses" while paid losses recoverable and other such expenses relating to ceded reinsurance should be netted during the calculation of the asset "Amounts Recoverable from Reinsurers.

It is recommended the Company initiate measures to ensure compliance with the Annual Statement instructions and SSAP #62 in the future.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following recommendations were made in the last report of examination:

- **Management and Control** - It was recommended the Company comply with Section 4919 of the Delaware Insurance Code and promptly notify the Department regarding changes of officers and directors.
- **Corporate Records** - It was recommended the Company adhere to Delaware Insurance Code Section 526 and follow the Annual Statement Instructions of the National Association of Insurance Commissioners when preparing the Annual Statement, to ensure the accuracy and integrity of the information filed and attested. The Company had failed to disclose changes made to its Articles of Incorporation and material capital contributions made to the Company.
- **Reinsurance** - It was recommended that the Company comply with Delaware Insurance Code Section 526, and the Annual Statement Instructions of the National Association of Insurance Commissioners and in the future report the reinsurance claim expense accounts as "Funds Deposited with Assuming Reinsurers".

Documentation analyzed during the current examination indicates that the Company initiated procedures to comply with these recommendations.

RECOMMENDATIONS

Management and Control

It is recommended the Company immediately initiate procedures to correct these problems and come into compliance with its Articles of Incorporation regarding the number of individuals serving on the Board of Directors and its Bylaws regarding the required Officers to be appointed for service to the Company. (**p. 6**)

Affiliated Company Agreements:

It is recommended the Company immediately initiate procedures to ensure that all affiliated company management and service agreements be submitted to the Commissioner of the Delaware Insurance Department for approval at least 30 days prior to the effective date of the agreements on the appropriate form required. **(p. 10)**

Reinsurance

It is recommended the Company immediately initiate procedures to ensure that all future reinsurance arrangements entered into are finalized within the time requirements of SSAP 62 paragraph 23 or accordingly accounted for as retroactive reinsurance as outlined in SSAP 62 paragraph 28. **(p. 13)**

Compliance with Accepted Statutory Accounting Practices and Delaware Insurance Statutes

It is recommended the Company immediately initiate procedures to ensure future compliance with the Delaware Insurance Code and with accepted statutory accounting practices as follows:

- Reflect Uncollected Premiums and Agents' Balances in Course of Collection are reflected in its financial statements net of commissions payable as defined in SSAP #6 paragraph 6. **(Note 2) (p. 20)**
- Any claims fund deposits ceded to reinsurers are to be reflected as a liability for "Funds Held by Companies under Reinsurance Treaties" as defined in SSAP #62 paragraph 20. **(Note 3) (p. 21)**
- To comply with the annual statement instructions and SSAP #62 guidelines, paid losses payable on assumed reinsurance should be included as part of the liability line item "Reinsurance Payable on Paid Losses" while paid losses recoverable and other such expenses relating to ceded reinsurance should be netted during the calculation of the asset "Amounts Recoverable from Reinsurers". **(Note 5) (p.21)**

CONCLUSION

As a result of this examination, the financial condition of Independence American Insurance Company, as of December 31, 2005 was determined to be as follows:

Admitted Assets	$ 60,020,996
Liabilities	$ 20,685,705
Common capital stock	3,000,000
Gross paid in and contributed surplus	25,902,015
Unassigned funds	10,433,276
Capital and Surplus	$ 39,335,291
Total Liabilities and Surplus	$ 60,020,996

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	12/31/05 Current Examination	12/31/02 Prior Examination	Changes Increases (Decreases)
Assets	$ 60,020,996	$ 26,694,125	$ 33,326,871
Liabilities	20,685,705	4,286,410	16,399,295
Capital & Surplus	39,335,291	22,407,715	16,927,576

In addition to the undersigned, Steven Guest, CFE, Delaware Supervising Examiner participated in the examination.

Respectfully submitted,

Perry L. DiCastri, CFE
Examiner-in-Charge
Delaware Department of Insurance

SUBSEQUENT EVENTS

Letter of Agreement with First Integrated Health Inc. (Employers Direct Health)

On February 22, 2006 the Company entered into a letter of agreement with First Integrated Health Inc. (FIH) a non-affiliated managing general underwriter. The result of the agreement will significantly change the financial position of the Company as well as place a significant part of its insurance risk in a different line of health insurance business. The terms of the agreement are summarized as follows:

- FIH will write all of its fully-insured group and individual medical insurance and stop-loss medical insurance with the Company as soon as practicable. In addition, FIH will write life and dental coverage thru the Company as soon as practicable.

- FIH will transfer at least 40% of its Fully-Insured Health Business to the Company on January 1, 2007. FIH will use its best efforts to transfer the balance of the fully-insured health business to the Company on January 1, 2007 and in no event later than July 1, 2007.

- The stop-loss health business will be transferred at each respective renewal date during 2007.

- Compensation

  - Initially there will be a $2,500,000 cash loan to FIH which it will simultaneously pay to the Company's immediate parent, Independence Holding Company (IHC), for 125,000 shares of its unregistered common stock. The Company will hold the IHC stock in escrow until such time as the aggregate annualized premiums for the health business and other risks written by FIH is at least $30,000,000. When this threshold is met, the Company will distribute the IHC Stock to FIH less the number of shares of IHC stock necessary to maintain the collateralization of risk (discussed later).

  - If the threshold premium for the 5 year period through the end of 2011 is at least $50 million and the aggregate underwriting gain is at least 6%, the Company agrees to pay FIH, in cash, the difference in the stock price of IHC between the fair market value & $40 for the shares held. In the event that the aggregate underwriting gain is less than 6%, but not less than 4.5%, then the additional payment will be determined in accordance with a specific formula included in the agreement. FIH is not required to own the stock of ICH in order to receive the cash difference. However, FIH must retain ownership of the

IHC stock for 12 months if it is issued to them.

  - If the threshold premium for the 10 year period through the end of 2016 is at least $80 million and the aggregate underwriting gain is at least 6%, the Company agrees to pay FIH, in cash, the difference in the stock price between the fair market value & $80. In the event that the aggregate underwriting gain is less than 6%, but not less than 4.5%, then the additional payment will be determined in accordance with a specific formula included in the agreement. FIH is not required to own the stock of ICH in order to receive the cash difference. However, FIH must retain ownership of the IHC stock for 12 months if it is issued to them.
  - If the Threshold Premium through the end of the year 2013 is at least $100 million and the aggregate underwriting gain from the business produced is at least 6% for years 2007 through 2013, then the Company will pay FIH an additional bonus of $1,000,000 cash.
- Continuation of Agreement
  - If the threshold premium through the year ending 2011 is at least $50 million and the aggregate underwriting gain is at least 6%, the agreement will be automatically renewed until December 31, 2016 and FIH will continue to write all health business in all states with the Company.
- Collateralization of Risk
  - FIH agrees to maintain collateralization in the form of a letter of credit from a bank and in such form as reasonably acceptable to the Company. The collateral will consist of cash or IHC stock, amounting to at least 3.5% of earned premium for the 12 months prior to the evaluation date. The Company will evaluate the collateralization of risk every six months and FIH agrees to adjust the amount of collateralization to maintain the 3.5% minimum. Any IHC stock to be used as collateral for FIH risk will be held in escrow.
- Upon termination FIH is allowed to keep possession of any IHC stock.

The 18 Del. C. § 1102(3) specifically requires that the stock of the insurer, owned by it, or any equity therein or loans secured thereby, or any proportionate interest in such stock acquired or held through the ownership by such insurer of an interest in another firm, corporation or business unit must be treated as a non-admitted asset on the financial statements of the insurer. Since the loan to EDH is for the purpose of acquiring the stock of the Company's immediate parent (IHC) it must be reflected on all of its future financial statements as a non-admitted asset.

Administrative Agreement with Employers Direct Health and Insurers Administrative Corporation

On September 22, 2006 the Company entered into an administrative agreement with Employers Direct Health, Inc. (EDH), which replaced FIH as party to the transaction (FIH is a trade name used by EDH), and Insurers Administrative Corporation (IAC), an affiliated third party administrator. Under the terms of this agreement EDH performs administrative & marketing services on business it produces. IAC performs management functions pertaining to all business produced by EDH. As compensation for services provided, the Company will pay 14% of produced premium to EDH and 1% of produced premium to IAC.

The administrative agreement was submitted to the Delaware Insurance Department and was approved by the Commissioner on January 5, 2007.

Sale of Voorhees Risk Management LLC

On October 19, 2006 the Company sold its 14.06% interest the Voorhees Risk Management LLC. to its immediate parent American Independence Holdings Corp. for $2,830,615. The transaction was submitted to and approved by the Delaware Insurance Department.